



PORT ST JOHNS
• MUNICIPALITY •

OUR HERITAGE, OUR PEOPLE

ANNUAL BUDGET 2017/18 - 2019/20

TABLED TO COUNCIL ON 30TH MAY 2017

Copies of this document can be viewed:

- In the foyers of all municipal buildings
- All public libraries within the municipal area
- At www.psjmunicipality.gov.za

TABLE OF CONTENTS:

PART 1: ANNUAL BUDGET 2017/18

- 1.1 Mayor`s report
- 1.2 Resolutions
- 1.3 Executive summary
- 1.4 Annual Budget Tables

PART 2: SUPPORTING DOCUMENTATION

- 2.1 Overview of Annual Budget Process
- 2.2 Overview of Alignment of Annual Budget with Integrated Development Plan
- 2.3 Measurable Performance Objectives and Indicators
- 2.4 Overview of Budget Related Policies
- 2.5 Overview of Budget Assumptions
- 2.6 Overview of Budget Funding
- 2.7 Expenditure on allocations and grant programmes
- 2.8 Allocations and grants made by the municipality
- 2.9 Councillor and board member allowances and employee benefits
- 2.10 Monthly targets for revenue, expenditure and cash flow
- 2.11 Annual budgets and service delivery and budget implementation plan
- 2.12 Contracts having future budgetary implications
- 2.13 Capital expenditure details
- 2.14 Legislation Compliance status
- 2.15 Other supporting documents

1.1 Mayor's report

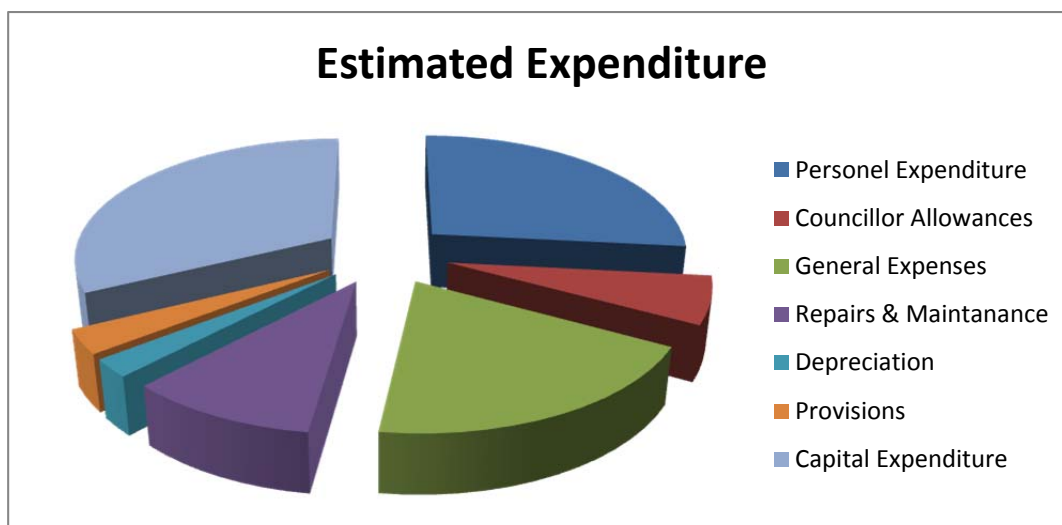
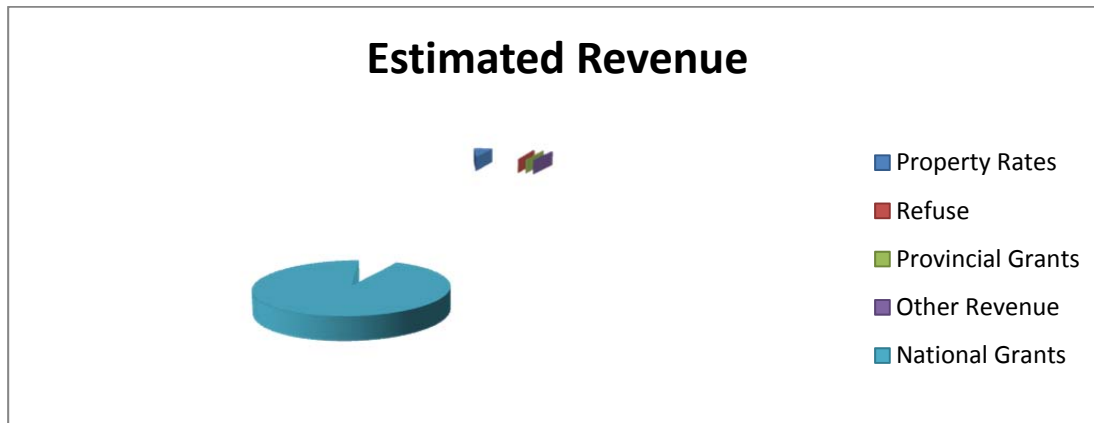
Port St Johns Municipality has a constitutional mandate to deliver services to communities. The IDP (Integrated Development Plan) illustrates integrated strategic planning of the municipality for the 5 years. The IDP review relates to assessing the Municipality's performance against organizational objectives as well as implementation, delivery and taking into consideration new information and changed circumstances. Furthermore the IDP review is looked at in the light of changing internal and external circumstances that impact on the priority issues, objectives, strategies, projects and programmes of the IDP.

The annual revision of the IDP must inform the Municipality's financial and institutional planning and most importantly, the compilation of the annual budget. Section 21 requires the Mayor of a municipality to-coordinate the process for preparing the annual budget, review the municipal integrated development plan and budget related policies. The Mayor ensures that the tabled budget and any revisions of the integrated development plan are mutually consistent and credible. The IDP process in the Municipality should encourage participation of key stakeholders in the different stages of the planning process. In order to allow stakeholders to provide value added inputs to own and commit to the process some underlying factors behind the notion of participation are envisaged.

Formulating this Medium Term Revenue and Expenditure Framework required a team effort, and it is for this purpose that the 2017/18- 19/20 IDP and Budget have been prepared and are hereby tabled before Council. The plan serves to strengthen the working partnerships between the Council, and administrative leadership of the municipality, so that together we can tackle the formulation of an IDP and MTREF Budget that embodies a three-year outlook, is reflective of Council's commitment to its social and economic goals, and is the outcome of rigorous debate and analysis. The 2017/18 IDP and Budget ensure enhanced accountability in the use of public resources and improving service delivery to our communities. The Municipality recognises the legal prescriptions in as far as community consultation is concerned. In essence, the three processes necessitating synergised community consultation are the IDP process, the Budgeting process and the Performance Management implementation process. Community participation sessions were held with all Municipal wards. A cluster approach was utilized to ensure maximum participation of Councillors, Management and Port St Johns communities.

One of the main features of the IDP process is the involvement of community and stakeholder organisations in the process. Participation of affected and interested parties is very important to ensure that the IDP addresses the real issues that are experienced by the communities of

Port St Johns Municipality. The local Newspaper and local Notice Boards and the recently opened Sajonisi Youth Radio station are used to inform stakeholders about the IDP review process and invited interested parties to participate in the representative forums within the Port St Johns Municipal area. Community participation through these forums formed an integral part of the IDP review process, and the finalization of the 2017/18 – 19/20 Medium Term Revenue and Expenditure Framework.



HONOURABLE L. ROLOBILE

MAYOR

1.2 Council Resolutions

The contents of the following extract from the Council resolution taken at a Council meeting held on 30th May 2017 be noted:

1. The Council of Port St Johns Municipality, acting in terms of Section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves:

1.1. The annual budget of the Port St Johns Municipality for the financial year 2017/18 – 2019/20 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in PSJM Table A2;

1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in PSJM Table A3;

1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in PSJM Table A4; and

1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in PSJM Table A5.

1.2.1 The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

1.2.1.1 Budgeted Financial Position as contained in PSJM Table A6;

1.2.1.2 Budgeted Cash Flows as contained in PSJM Table A7;

1.2.1.3 Cash backed reserves and accumulated surplus reconciliation as contained in PSJM Table A8;

1.2.1.4 Asset management as contained in PSJM Table A9; and

1.2.1.5 Basic service delivery measurement as contained in PSJM Table A10.

1.3. That Council take note of all the Supporting schedules SA1 to SA37 as support to the main budget tables

1.4. That Council approve a 6% increase on the whole tariff structure.

1.5. That Council resolves to approve the 2017/2018 Reviewed Integrated Development Plan.

1.6. That Council note that the status of the Financial Policies, remains the same until reviewed.

1.7. That Council take into account all comments, objectives and input that have been received during public and stakeholder consultations

1.8 That Council note that the consolidated budget of the municipality and entity will be submitted to National Treasury within the prescribed time frame and placed on the websites.

I, T. Khukula, Speaker of the Port St Johns Municipality hereby declare that the above is a true copy of the resolution taken at a Council Meeting held on 30th May 2017.

HONOURABLE: T KHUKULA

COUNCIL SPEAKER

1.3 Executive Summary

The Systems Act requires a municipality to include a financial plan, including a 3 year budget, in the annual Integrated Development Plan (IDP). In essence this financial plan is a medium term strategic framework on how the municipality plans to deliver services, within financial means.

The Port St Johns Municipality's (PSJM) Medium Term Revenue and Expenditure Framework (MTREF) materially comply with the latest budget regulations as well as the requirements of the National Treasury (MFMA Circulars). This plan has been prepared taking in consideration the priorities and direction established by the municipality during the 2017/2018 budget deliberations. Council's strategic objective of service delivery includes the improvement in providing acceptable levels of service as well as the improvement in those areas where it lacks acceptable levels. The balancing act is to achieve these objectives with available financial resources, and to always consider the effect of tariff adjustments on the community at large, and specifically the poor.

In addition, the municipality did not escape the effect of the global economic downturn, as well as the possible tariff increase by Eskom, and this makes the achievement of the service delivery objectives so much more difficult. A considerable percentage of municipal communities are unemployed due to absence of development and industrial initiatives within our municipal area. This has adverse impact on the economic climate of the municipality as well as to internally generated revenue within the municipality.

The municipality urgently requires to implement strategies, policies and principles that seek to improve financial sustainability and thereby implement all relevant policies and bylaws. These principles and policies will establish the basic framework for the responsible management of the municipality's financial resources.

The Port St Johns Municipality needs to have an effective internal control system in place, and address gaps as raised by the Auditor General. The Budget and Treasury Office has the following

objectives:

- ☐ Implementation of MFMA
- ☐ Implementation of the Property Rates Act
- ☐ Management of the Budget Process
- ☐ Management of Municipal Revenue
- ☐ Management of the Supply Chain Management Unit

☐ **Production of Financial and non-financial Performance Reports**

The municipality's budget must be seen within the context of the policies and financial priorities of the National, Provincial and District Government. In essence, the spheres of Government are partners in meeting the service delivery challenges faced in Port St Johns. The municipality alone however, cannot meet these challenges. It requires support from the other spheres of Government through the direct allocation of resources as well as the achievement of their policies. The PSJM is striving towards improving the quality of lives for communities to address service delivery requirements within available financial means and would like to thank our community for their inputs into the IDP and Budget process, the Councillors for their continued hard work and support as well as the Management for all their efforts.

I thank you.

Honourable: L Rolobile

MAYOR

1.3.2 External factors

There is no real growth in the municipal area, with the number of people, as well as the number of households, remaining fairly consistent. Job opportunities are limited, and the National budget identified employment creation as a priority and suggests that municipal capital and maintenance projects should seek to assist in this manner, by implementing labour intensive projects within financial means.

The municipality has for the financial year 2017/18 received R 1 501 000 from the National Treasury to implement EPWP programmes that are meant to create the needed job opportunities. It should be noted though that the funds are relatively minimum versus the need within communities as the majority of households are purely depended on Social grants.

1.3.3 General inflation outlook and its impact on the municipal activities

General inflation (CPI) is estimated 6 % for the 2017/2018 financial year. This of course lends to expectations that municipal tariffs should increase by more or less the same percentage, which is set at 6%.

1.3.3.1 Interest rates for borrowing and investments of funds are linked to the CPI

1.4 Annual Budget Tables

The general contact information as requested by National Treasury is reflecting on the following template in point 1.5.

The following twenty (20) pages, directly after point 1.5 (contact information) present the annual budget tables A1 to A10 (as required in terms of Section 8 of the Municipal Budget and Reporting Regulations):

- Tables 1 to 10 set out the 2017/2018 budget with a Municipal Entity as approved by the Council.
- Tables 11 - 20 set out the 2017/2018 MTREF budget with Municipal Entity as approved by the Council

1.5 EC154 - Port St Johns Contact Information

Contact information for the municipality is contained on page 1 of the Schedule A MTREF document as required by National Treasury.

PART 2 - SUPPORTING DOCUMENTATION

1.7 Supporting documentation Tables

The supporting documentation tables (SA1 to SA37) as required in terms of Section 8 of the Municipal Budget and Reporting Regulations of National Treasury are reflected on Tables 39 to 80.

1.8 Overview of Annual Budget Process

The tabling of the Annual budget and IDP as well as the approval of final IDP/Budget has been done in line with the budget timetable approved by Council in August 2016. The Budget and MTREF was also prepared taking cognizance of the contents of the LG: MFMA, Act No. 56 of 2003, MFMA Circulars and the LG: MFMA Budget Formats Guide received from National Treasury as well as MSCOA circulars.

1.8.1 Service Delivery and Budget Implementation Plan (SDBIP)

Section 1 of the Local Government: Municipal Finance Management Act (No.56 of 2003) defines the SDBIP as:

“ a detailed plan approved by the mayor of a municipality in terms of section 53 (1)(c)(ii) for implementing the municipality’s delivery of services and the execution of its annual budget and which must include (as part of the top-layer) the following:

- (a) projections for each month of-
 - (i) revenue to be collected, by source; and
 - (ii) operational and capital expenditure, by vote;
- (b) service delivery targets and performance indicators for each quarter”.

The municipal manager is responsible for the preparation of the SDBIP, which must be legally submitted to the mayor for approval once the budget has been approved by the council (by the end May – early June each year). However, the municipal manager should start the process to prepare the top-layer of the SDBIP no later than the tabling of the Annual budget (around March or earlier) and preferably submit a SDBIP to the mayor by 14 June (for initial approval). The municipality is putting processes in place to improve on effective planning and thereby comply with the set timeframes.

The mayor should therefore approve the final SDBIP and performance agreements simultaneously, and then make the SDBIP and performance agreement of the municipal manager public within 14 days, preferably before 1 July.

It is the output and goals made public in the SDBIP that will be used to measure performance on a quarterly basis during the financial year. Note that such in-year monitoring is meant to be a light form of monitoring. The council should reserve its oversight role over performance at the end of the financial year, when the Mayor tables the annual report of the municipality. The in-year monitoring is designed to pick up major problems, and aimed at ensuring that the Mayor and Municipal Manager are taking corrective steps when any unanticipated problems arise.

The SDBIP serves a critical role to focus both the administration and council on outputs by providing clarity of service delivery expectations, expenditure and revenue requirements, service delivery targets and performance indicators. The SDBIP provides the vital link between the mayor, council (executive) and the administration, and facilitates the process for holding management accountable for its performance. The SDBIP is a management, implementation and monitoring tool that will assist the Mayor, Councillors, Municipal Manager, Senior Managers and community. A properly formulated SDBIP will ensure that appropriate information is circulated internally and externally for purposes of monitoring the execution of the budget, performance of Senior Management and achievement of the strategic objectives set by council. It enables the Municipal Manager to monitor the performance of Senior Managers, the Mayor to monitor the performance of the Municipal Manager, and for the community to monitor the performance of the municipality.

The SDBIP should therefore determine (and be consistent with) the performance agreements between the Mayor and the Municipal Manager and the Municipal Manager and Senior Managers determined at the start of every financial year and approved by the Mayor. It must also be consistent with outsourced service delivery agreements such as municipal entities, service contracts and the like. The Service Delivery and Budget Implementation Plan (SDBIP) for the 2017/2018 budget year, is a separate document that is part of this 2017/2018 - budget document.

1.9 Alignment of Annual Budget with Integrated Development Plan

The Annual budget responds to needs outlined in the IDP as a five year strategic document developed in consultation with the communities. Internally, departments outline their strategic programme of action, propose their budgetary needs and priorities there in line with the available funds. MSCOA requires that municipalities ensure alignment of budgeted projects with those in the IDP. Table 24 on page 50 reflects Table SA4 that depicts municipal priorities per strategic agenda.

1.10 Measurable Performance Objectives and Indicators

The strategic objectives have been formulated to address the development priorities as outlined in the 2017/2018 - 22 Reviewed Integrated Development Plan (IDP) of the municipality.

1.11 Overview of Budget Related Policies

The financial policies of the Port St Johns Municipality are to provide sound, secure and fraud free management of financial services.

The current policies are not included in this budget documentation as they are in a process of being reviewed. However they are available at the Council offices, for viewing as well as on the website.

The Port St Johns Municipality does have a draft financial recovery plan in place that was prepared with the assistance of provincial Treasury. The municipality is striving to improve financial sustainability.

1.12 Overview of Budget Assumptions

Budgets are prepared in an environment of uncertainty, to prepare meaningful budgets assumptions need to be made about internal and external factors that could influence the budget.

Cabinet adopted 12 outcomes within which to frame public service delivery priorities and targets. Cabinet ministers have signed performance agreements linked to these outcomes. More detailed delivery agreements have since been developed to extend targets and responsibilities to national and provincial departments, agencies and municipalities.

Port St Johns Municipality is expected to take the 12 outcomes into consideration when reviewing the IDP and developing the annual budget for the 2017/2018 MTREF.

1.14 Expenditure on Allocations and Grants Programme and Allocations and Grants made by the Municipality

National and Provincial Government provide funding to assist the municipality to achieve its developmental and service delivery goals. In addition, the Constitution requires all spheres of government to assist each other to achieve goals set at National or Provincial level. Local economic development and employment opportunities are high on the agenda of the national government, and the municipality, again within financial means, as well as revenue from government grants, aims to assist as far as possible in achieving these goals.

Library funding has also been increased from R 100 000 in the 2015/16 financial year to R 300 000 for the 2016/17 financial year. It is anticipated that the 2017/18 allocation remain constant at R 300 000.

1.15 Monthly Targets for Revenue, Expenditure and Cash flow

See the contents of Schedules SA25 to SA30 reflecting the targets for revenue, expenditure and the Cash Flow.

1.16 Contracts having Future Budgetary Implications

The municipality is in the processing of updating the records on contracts having future budgetary implications and cannot reflect details at this stage.

1.17 Capital Expenditure Status

See the contents of Schedules SA34 to SA37 reflecting the Capital Expenditure Status.

1.18 Annual Budgets and Service Delivery and Budget Implementation Plans (SDBIP) - Internal Department

The SDBIP marries the Performance Management System (as required under the Municipal Systems Act) with the operating and capital budgets and the IDP. Thus the strategic direction mapped out in the IDP is matched with the financial resources and delivery of services as specified in the PMS. The requirement for a SDBIP is stated in the Municipal Finance Management Act (Act No 56 of 2003), Section 69.3(a) and is the responsibility of the Municipal Manager.

The SDBIP allows the budget to be implemented fully as it identifies:

- ☐ The Strategic Imperative - Through links with the IDP
- ☐ The Financial Imperative - Through links with the budget
- ☐ The Performance Imperative - Through links with the PMS.

Basically there is a high level SDBIP for the purpose of high level monitoring by stakeholders, backed by full detail for individual departments. The municipality is currently making arrangements to cascade to all levels of staff within the municipality and thereby respond to prior year Audit query raised on the matter. Starting from top (the Municipal Manager) all Heads of Departments operate under KPI's within the identified KPA's. In effect the SDBIP becomes the implementation tool for the budget and the basis for non-financial monitoring.

At the highest level, every vote could be aligned to an IDP strategy and some KPI's. These then form the basis of future monthly and in-year reporting. Strategic Sessions are held each financial year, these outline the Strategic Plan (Road Map) for the municipality and

presents aspirations and spells out what the municipality would like to achieve at the end of the MTREF. In context, this Strategic Plan encapsulates key institutional strategic issues/challenges identified by management per Key Performance Area (KPA) through a situational analysis exercise (strengths, weaknesses, opportunities and threats - SWOT), and the broad strategic objectives and strategies formulated by council and management to address the challenges and as well set the strategic direction for PSJM for the 2016/2017 financial year.

1.20 Legislation Compliance Status

Each year, National Treasury issues MFMA circulars to municipalities advising them of the budget parameters within which municipalities should work when preparing their budgets, together with other MFMA circulars and the Budget and Reporting Regulations.

The PSJM strives to fully adhere to these set parameters, however, current staffing requirements, newly purchased plant and IDP priorities have necessitated that other line items be budgeted for on a need basis versus the guideline increase provided by National Treasury. This is a situation that the municipality is aware of, however, to stabilise the municipality, it has become necessary to allocate funds as contained in the document.

1.21 PSJM Final 2017/2018 Tariff Structure

Municipalities were advised to structure their 2017/2018 tariffs based on the approved increase given by NERSA in the prior year. Port St Johns Municipality does not provide bulk electricity; this is supplied directly by Eskom. However, Municipal usage as well as Free Basic Electricity for deserving consumers has been affected by this agreement. Also, the municipality has since the 2016/17 financial year commenced with the indigent programme of providing communities with alternative means of electricity.

The Tariffs for the Annual budget were structured as follows:

- 6% increase on the whole tariff structure,

1.22 Municipal Manager's Quality Certificate

I, Ngamela Pakade Municipal Manager of Port St Johns Municipality (EC154), hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

N. PAKADE

MUNICIPAL MANAGER

PORT ST JOHNS MUNICIPALITY (EC154)
MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK 2017/2018 – 2019/20

Print Name: _____

Municipal Manager of Port St John`s Municipality (EC 154)

Signature: _____

Date: _____